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RUEHMN/AMEMBASSY MONTEVIDEO 7171
RUEHSG/AMEMBASSY SANTIAGO 0095
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RUEHGZ/AMCONSUL GUANGZHOU 0030
RUEHHK/AMCONSUL HONG KONG 0072
RUEHRG/AMCONSUL RECIFE 7584
RUEHRI/AMCONSUL RIO DE JANEIRO 5666
RUEHSO/AMCONSUL SAO PAULO 1442
RUESLE/AMCONSUL SHANGHAI 0039
RUEHSH/AMCONSUL SHENYANG 0025
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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 000048

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E FOR TOM PIERCE; EPSC FOR LISA KUBISKE

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TAGS: [ETRD](#) [EINV](#) [PREL](#) [BR](#) [CH](#)

SUBJECT: CHINESE AMBASSADOR DISCUSSES HIS PRIORITIES,
BRAZILIAN ASPIRATIONS

REF: A. STATE 164790

- [1](#)B. SAO PAULO 718
- [1](#)C. BRASILIA 918
- [1](#)D. RIO DE JANEIRO 598
- [1](#)E. BRASILIA 990

Classified By: Ambassador Clifford Sobel, reasons 1.4 b and d.

[1](#)1. (C) Summary. Chen Duging, Chinese Ambassador to Brazil, told Ambassador Sobel on October 19 that his top priorities are to create a more favorable environment for economic relations and to promote Chinese interests in the Brazilian Congress. Ambassador Chen described an economic relationship of growing bilateral trade and investment characterized by an unbalanced exchange of finished industrial goods from China for Brazilian raw materials, and said Brazilian political international ambitions exceed Brazil's political weight. End summary.

[1](#)2. (C) Chen told Ambassador Sobel that he travels extensively throughout Brazil in pursuit of his top priority of creating favorable conditions to increase the trade relationship, mainly to Rio de Janeiro and Sao Paulo, but also to northern states such as Para. He is increasing his ability to pursue his other top priority by adding a counselor to his staff to work full-time on congressional engagement.

"Brazil Must Open Its Mind More"

[1](#)3. (C) Sino-Brazilian relations are getting to be quite good, he explained, even if the only important Chinese visitor this year was the then-Deputy Foreign Minister (now Foreign Minister). But an outdated view of the Chinese political system blurs Brazil's perception of China and "Brazil must open its mind more," he said. The Chinese Communist Party was now taking historic steps at its National Congress, as President Hu noted when he said that China must be more open, and Brazil needed to understand this change,

Chen stated. (Note: The 17th National Congress of the Communist Party of China took place October 15-21, 2007. End note.)

Trade and Investment

14. (C) China would soon pass Argentina and Germany to become Brazil's number two trading partner, after the U.S., Chen noted, offering a figure of two-way Chinese trade with Brazil at USD 20 billion in 2006. (Note: Chinese Foreign Ministry officials cited the same bilateral trade figure at the U.S.-China Sub-Dialogue on Latin America in late November, as reported ref A. According to the Sao Paulo State Federation of Industries, total bilateral trade in 2006 was USD 16.4 billion, as reported ref B. End note.) China's exports to Brazil are mainly finished goods, especially electronics; Ambassador Chen said Brazil complains of dumping, but Chen added that "this is part of our process of increasing our relationship," implying Brazilian dumping accusations are a natural part of a growing trade relationship.

15. (C) Brazil's top exports to China are soy and iron ore. Seventy million tons of iron ore and 11 million tons of soy a year go to China, according to Chen, and China always runs a trade deficit with Brazil, now at about USD 4 billion a year. (Note: China buys about a third of Brazil's iron ore exports, introducing "an obvious vulnerability" for Brazil, according to the November 2007 issue of Brazil Focus, published by Menas Associates, www.menas.co.uk. Ref C reported Brazilian mining executives' concerns about China's influence over Latin American natural resources. End note.)

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Chen said that if you calculate undercounting on the Brazilian side the deficit is even greater. His principal concern about the economic relationship is that "Brazil has not consolidated its basis for more development" because "without more economic growth, it will not achieve greater income distribution." He noted Brazil's poor infrastructure, calling Santos the "world's worst port," and said China is interested in railroad projects in Brazil. Chen said Brazilian bureaucracy is "confused" and has no model, in comparison with China's, where top bureaucrats must go through the Central Committee Party School.

Major Steel Investment

16. (C) Chen told Ambassador Sobel that China had signed a major joint venture agreement on October 3 with the Companhia Vale do Rio Doce (CVRD, now "Vale") to construct a steel plant in Vitoria, Espirito Santo, making China a majority partner in the Companhia Siderurgica de Vitoria (CSV) with an investment of USD 5.5 billion (ref D). Chen said China would like to make more such investments, but there is political resistance in some circles in Brazil. (Note: Ref E reported Brazilian fears of China. Nonetheless, Brazilian leaders continue to court Chinese investment. Bahia governor Jaques Wagner led a trade mission November 15-25 to China in search of investment in tourism, ports, railroads, mining, ethanol, and semiconductors. Also in November, Amazonas Governor Eduardo Braga and a large entourage embarked on a 20-day Asian trade and investment mission to Japan, China (including Macau), Malaysia, and Indonesia. A Chinese trade and investment mission to Amazonas in 2008 was announced during Braga's visit to China. End note.) In the northeast of Brazil, for example, Chen continued, there are many opportunities, but China will limit itself to equipment sales. Moreover, in spite of the large size of many Brazilian firms, there is little money for equipment purchases and Brazilian importation of Chinese goods became somewhat more difficult after China increased the exchange rate value of its currency 8.27 percent, he noted. China cannot revalue its currency as fast as the U.S. would like

because it will produce a negative impact on the Chinese economy, Chen added.

¶17. (SBU) China's domestic steel production accounts for the majority of China's needs, but China must import certain specialized steels. The trade with Brazil has not grown in the last 20 years and remains at about 30 million dollars a year, according to Chen. (Note: According to the Brazilian Institute of Steel, 2006 Brazilian exports of steel and steel products to China were USD 52.7 million (66,628 metric tons) and have dropped significantly since 2005. Conversely, Brazilian imports of Chinese steel have increased from USD 27.5 million in 2005 to USD 92.7 million in 2006. End note.)

Biofuels

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¶18. (SBU) Asked about Chinese interest in Brazilian biofuels, Chen replied that China produces its own biofuel and does not buy any fuels from Brazil, only some heavy oil.

Brazilian Leadership Aspirations

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¶19. (C) Ambassador Chen said he has observed the growth in the U.S.-Brazilian bilateral relationship over the last year, and understands that Brazil wants to be a leader, but it has "no capacity or influence." Chen dismissed Brazil's UN Security Council aspirations, saying it is not qualified, and is "interested in only some areas, and not in peace and security."

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Biographical notes

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¶10. (SBU) Ambassador Chen said he has never been on an official visit to the U.S. and has spent most of his career in lusophone assignments. He began his career in Brazil in 1974, and returned in the period 1981-84. He was Ambassador in Mozambique, and came to Brazil after a year and a half assignment in East Timor. He said he is 60 years old, can retire at any time, and will finish his career in Brazil. He speaks English.

Sobel